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**TERRITORIAL DYNAMICS AND HISTORY IMPRINT: TWO FRENCH  
CLUSTERS IN TRANSITION IN THE SOUTH EAST REGION**

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**Abstract**

The aim of the article is to contribute to the analysis of path dependency mechanisms at territory level in old industrial regions. The paper presents the results of research into the processes of transition that have been at work over the past 25 years in two old French clusters. In these areas, the nature of the relevant resources has changed. They are no more material and associated with the physical space, but immaterial and associated with the organised space. This process of dematerialisation implies cooperation between local actors. But history leaves physical, social and cognitive imprints on territories which are of crucial importance as they play as catalysts or as barriers for cooperation.

## **Introduction**

Space organization is being shaped by a dual trend, towards the increasing globalization of competition, on the one hand, and the territorialization of the use and construction of the resources mobilized by firms, on the other (Rallet, 2000). This territorial concentration and specialization lead to higher levels of productivity, growth and employment (Steiner, 1998) or firm performance (Oerleman and Meeus, 2005), but may also give rise to negative effects (Staber, 2001). At local level, firms compete for limited resources and the positive effects of agglomeration can be neutralized by this competition (Sorenson and Audia, 2000). As the trend towards agglomeration continues to strengthen, the aim of this article is to understand, following the example of other studies (Pyke *et alii*, 1990, Giuliani, 2005), why some territories succeed while others fail. In particular, we want to highlight the factors that influence a territory's ability (or inability) (and that of the organizations and institutions located in it) to construct and renew its core competences, that is the competences essential to its survival (Prahalad and Hamel, 1990).

In their article, Tödling and Trippel (2004) exhort scholars to pay more attention to the renewal of old industrial regions. They identify some

critical factors encouraging such cluster's transformation. In their paper, they observe that in old industrial territories, the renewal is strongly oriented by history and old development paths. Thus our purpose is to contribute to the analysis of path dependency mechanisms at territory level in old industrial regions. The final aim of the paper is to open the path dependency "black box" and to characterize its mechanisms which are made up of both temporal and spatial components.

This paper presents the results of research into the processes of transition that have been at work over the past 25 years in four old industrial areas in the PACA region<sup>1</sup>. The aim of the research was to analyse the nature of the changes that had taken place and to identify the actors who had played the decisive roles. The development of economic activity in these areas had traditionally been linked to the presence of abundant natural resources. These productive systems exploited specific resources that could not be transferred because they were indissolubly linked to the geography of the place. At the same time, the physical space was the 'matrix' for an economic and social space. The nature of those specific resources has now changed. They are no longer tangible and tied to the physical territory; rather, they are increasingly intangible and

linked to the territory as an organized entity, either because the natural resources have become scarce or because they have ceased to be exploited locally because of foreign competition.

It is this transition that we intend to analyse here. The increasing intangibility of the resources deployed brings with it an increasing need for cooperation between (private and public) actors, since the resources are created and mobilized in a collective space. Thus the development of a territory's key competences is linked to the establishment of effective forms of 'territorial governance'. The term 'governance' here denotes the inter-organizational relations that are established at the territorial level between firms and between firms and local public and/or political actors. A territory is '*an organization that combines a location, a cultural heritage, a process whereby the space is appropriated by a group that is aware of an identity and a process of management, development and self-reproduction*' (Bailly *et alii*, 1995). It is a construct based on the practices and representations of the actors involved. And many analyses have described the great difficulty that local actors may experience in reaching agreement on the issues facing a territory (Pichierri, 2002). We intend to approach this question from an historical point of view. Economic relations are embedded in social structures (Granovetter,

1985). History's physical impact on territories is reflected in the geographical organization of places, while its social impact can be seen in interpersonal and inter-institutional relations and in the modes of knowledge transmission, which may act either as catalysts or as barriers that render cooperation ineffective.

Thus the originality of this paper is twofold. It lies, firstly, in the adaptation at territorial level of the Resource-Based View (RBV) framework first designed to analyse firm dynamic (Wernerfelt, 1984, Barney, 1991, Heene et Sanchez, 1997...). This framework consists of three dimensions that frequently remain more or less unconnected in the literature : 1/ a territory's 'innovation ladder', which denotes the nature and source of the competences it is able to develop ; 2/ the systems of actors operating in the territory, that is the nature of the dominant form of local governance ; 3/ the role of the territory's history, that is the path dependency phenomena (Nelson and Winter, 1982, North, 1990, Pierson, 2000) that will constrain the territory's trajectory and hence the nature of the dynamic at work. The paper's second original contribution relates to the empirical analyses to be undertaken. Existing studies of agglomeration phenomena are concerned mainly with recently established territories or clusters and technology-intensive activities. And despite the protestations that this

approach is not confined to analysis of high-tech sectors (Porter, 2000), it has to be said that there are relatively few studies that seek to analyse the regenerative capacities of old industrial areas, and those that do exist are generally limited to a particular analytical or geographical field (Cumbers and MacKinnon, 2004, Tödling and Trippel, 2004).

We begin by outlining the analytical framework that will provide the basis for our investigation. Next, taking as our starting point the history of the fragrance and perfume industry centred on Grasse and of the reconversion of the shipyards at La Ciotat, we will attempt to show that, while a territory's sources of competitiveness are subordinate to its internal capacities for cooperation, the proximity of the actors does not guarantee those capacities, since the territory's historical heritage acts as a constraint on them.

## **A- A FRAMEWORK FOR ANALYSING TERRITORIAL DYNAMICS**

### **THE INNOVATION LADDER: THE NEED TO CONSTRUCT NON-TRANSFERABLE TERRITORIAL RESOURCES**

The reduction in transport costs and the development of information and communications technologies have considerably reduced the importance of distance in firms' strategies, even though at the same time the intensity of relations and information flows diminishes rapidly with distance (Sorenson and Baum, 2003). Firms become more 'nomadic' (Zimmermann, 2002), which is forcing territories to rethink their role in the international division of labour. Space is still a factor in firms' strategies, but its role is now more complex. Firms make decisions on location, but at the same time they operate and gather resources in a multiplicity of spaces. Thus firms are simultaneously a part of their local space and of faraway spaces (Nachum and Keeble, 2003) and territorial dynamics themselves combine local processes and global linkages (Wolfe and Gertler, 2004).

Consequently, territories find themselves obliged to provide locally resources that are not easily transferable in order to encourage firms to maintain their local operations. Thus a territory's ability to endure is the result of its capacity :

- to reproduce itself (endogenous capacity) ;
- to coordinate its constituent organizations by means of cooperative relations, whether institutionalized or not (Davis, 2004) ;



- to endogenize external resources, i.e. its absorptive ability (Cohen and Levinthal, 1990, Giuliani, 2005) ;
- to construct non-transferable territorial resources.

Thus the challenge is to renew key competences (Prahalad and Hamel, 1990) that can stand up to the competition from the new producer countries and to multinationals' 'nomadic' behaviour. Resource and competence-based approaches (RBV) have traditionally been located at the level of the firm. However, researchers have recently been making attempts to apply such approaches at the territorial level, particularly in order to gain an understanding of the deficiencies observed in industrial districts (Lanciano, 2006).

The RBV distinguishes several analysis levels. The first level is the one of the resources, that are elemental particles whose combination rests on organizational capacities. After Penrose (1959), the RBV developed the idea that firms are heterogeneous because they own specific resources (Wernerfelt, 1984, Teece, 1984, Barney, 1991). This specific character emerges thanks to an internal learning process (Collis, 1991).

The second level is made up of competences. Competences refer to the capacity of the firm to combine and spread resources on a

specific way in order to reach its objectives (Grant, 1991, Amit and Shoemaker, 1993). These competences are organizational routines (Nelson and Winter, 1982).

In a globalized economy, territories organized around old industries have to face price competition from companies in low-wage countries. Various studies have shown that firms in these territories tend to focus on high value-added products. The adoption of such strategies requires an ability to develop radical innovations for which increased R&D expenditure and a highly skilled workforce are necessary. According to the RBV, they are the resources the territory has to mobilize to survive in its competitive environment.

In territories long since industrialized and made up largely of SMEs, no one firm has the resources required to implement such strategies. One solution is to build up collective, mutualized resources. At territorial level, the ability of local actors to cooperate in the construction of the local infrastructure resources and R&D and training capabilities that their firms need represents a core competency (Prahalad and Hamel, 1990). However, when there is no local tradition of cooperation, building up resources of this kind can prove to be very complicated for economic actors who are competing

for scarce resources. This creates a need for supervision or management of any cooperative projects that might be launched. Thus the formation and development of these resources depend on the existence of modes of local governance capable of bringing together the local public and economic actors around shared reference points.

#### **THE NEED FOR EFFECTIVE TERRITORIAL GOVERNANCE**

Within any one territory, a multiplicity of actors coordinate with each other. They may be : economic (firms, individual establishments belonging to groups, associations of undertakings, etc.), institutional (territorial/regional authorities, state, chambers of commerce, etc.) or social (trade unions, associations, etc.). The interactions between them constitute a form of local or territorial governance that provides a basis for conceptualizing territorial trajectories. A number of studies have examined the cooperation between public and private actors at local level, which they term 'consultation' (Pichierri, 2002), 'partnership' (Davies, 2004) or 'governance' (Gilly and Wallet, 2001). Our intention is to add an historical dimension to our analysis of these inter-organizational relations, with the aim of highlighting the

difficulties that lie behind the construction of non-transferable territorial resources and core territorial competences.

In our analysis framework, we use the definition of Gilly and Wallet (2001) in which local governance denotes a process of bringing face to face and aligning with each other the representational and action systems of actors who are in close geographical proximity to each other but may come from different organizational and institutional backgrounds with a view to implementing a local development project. Three main forms of territorial governance can be identified depending on the key actors involved in them :

- *private* governance: private actors play the dominant role in energizing and managing the coordination and resource creation systems. In this case, one “focal” firm can play a key role (Ehlinger *et alii*, 2007)
- *collective private* governance: the key actor is a formal institution in which various private operators play the leading roles;
- *public* governance: public institutions are the driving force in local coordination systems.

In most cases, however, territorial governance structures are *mixed*.

As the resources required to develop a territory's core competences become ever more intangible, the inter-organizational relations that structure the forms of local governance become crucial. One widely shared hypothesis is that a territory's dynamic should be regarded as associated with the existence of institutional proximity or consensus (Isaksen, 2004), even if competition and conflict seem to be required to some extent and under conditions (Malmberg and Maskell, 2002). In old industrial areas, such as those we investigated, we touch here on a key question. The necessary learning processes are made possible by the embeddedness of productive activities within the systems of social relations (Granovetter, 1985, Gilly and Grossetti, 1993). Many economic and institutional actors may share a similar concept of a territory and of the development paths it should follow, but this vision can be oriented towards old trajectory (Tödtling and Trippel, 2004) and produce situations of cognitive "lock-in" (Grabher, 1993). Even in old industrial regions, institutional proximity does not necessarily signify institutional sameness. Focusing on institutional proximity may lead to an overemphasis on homogeneity and shared conventions (generally around a project), while the heterogeneity of territories and the representations that exist within them is neglected. The territorial dynamic and the development of a local governance able to contribute to the renewal of territory competences is linked to

this double set of forces: the sharing of experiences, plans and frames, on the one hand, and a capacity for differentiation and the presence of multiple representations, on the other. The analysis of these forces and of their interactions requires, as Staber (2007) suggests for social capital in regional clusters, to pay attention to context. *“Context is not merely a general environment that enables or constrains action but a nested setting of structures and processes through which individuals perceive, interpret and motivate their actions, and in turn shape context”* (Staber, 2007, p. 506). Context is not only a setting, a scene. It is a process (Pettigrew, 1990). Its analysis requires to develop a historical approach.

#### **THE IMPRINT OF HISTORY**

The influence of history and organizational and institutional contexts has been integrated in economic and organizational literature since Penrose (1959) through notions as path dependency (Nelson and Winter, 1982, North, 1990, Pierson, 2000...), administrative heritage (Bartlett and Goshal, 1989) or organizational inertia (Hannan and Freeman, 1977). This dependency or heritage can have negative effects on organizational development transforming core

competences into core rigidities (Leonard-Barton, 1992). But experience can produce new beliefs, norms and rules that enable to overcome inertia effects associated to path dependency (Tripsas and Gavetti, 2000). This double perspective can be transferred at territorial level.

### **Territorial trajectories: between dependency and fork**

Whether in terms of strategic positioning, forms of governance or social structuration, these territories pursue development trajectories that follow path dependencies. These path dependencies should not be regarded as linear or predetermined, nor are they free from changes of direction or breaks with the past. Far from being ineluctable, these trajectories reflect the inevitable links between the present, the past and the future. At any given moment, the influence of previous actions, organizational forms and inter-organizational relations manifests itself in current actions, organizational forms and inter-organizational relations, which in turn help to shape those of the future without determining them totally. Thus the forms of governance both crystallize and play a part in shaping a territory's economic, political and social heritage. For organizations and institutions that are part of the same geographical space, the territory

is potentially a source of institutional proximity and a shared resource, as well as a source of challenges to be met in the attempt to acquire or retain a dominant position locally or to overcome a situation of weakness. A territory follows a particular trajectory by virtue of the presence of such and such a category of actors and their specific modes of interaction.

In these territories, these path dependencies may reflect the lasting influence of key moments, of founding or refounding events that punctuate the history of each of these productive systems and produce both radical change and crystallization, creating new irreversibilities (Boyer *et alii*, 1991, Grossetti, 2004) each time. The development of territories is driven in particular by the combined effect of endogenous adaptation and transformation mechanisms and the integration and endogenization of external constraints and shocks. This is all the more true today since local spaces can no longer be conceptualized independently of the global space. Firms engage in their activities in a given physical space, but their reference space (from which they draw resources and to which they make their productive contribution) is larger than that in which they are physically located. These events and shocks leave a lasting impression on a territory because they imprint themselves on its



economic and urban structures, social networks, customs, values and representations.

### **Path dependency and the 'layering' of interpretations**

However, these imprints left by past events are not deposited unvaryingly on the territory. A territory's trajectory is a history of economic, technological and social crises and breakdowns, sometimes even of losses, that make it impossible or at least very difficult to implement a common project. These events give rise to a number of different histories, since they are endogenized through the various modes of appropriation adopted by the different actors. The same event or situation can be interpreted in different ways because of the multiplicity of reference systems drawn on by the actors involved in the interaction which in turn will be reflected in the actors' strategies. Since different individuals and groups coexist with each other and, furthermore, since any one individual's interpretation of the situations experienced can vary, reality, and hence territories, can be described as 'layered' (Goffman, 1973, Boussard *et alii*, 2004). From this point of view, history and the modes of constructing individual and collective trajectories are key factors in understanding the changes that have taken place in a territory. Staber (2007) argues that in mature clusters, social capital may include a narrow

range of structures and interpretations because of a long common history. We argue that, on the opposite, mature clusters or old industrial regions may contain a wide range of interpretations when history and events lead to differentiate social positions. Thus the history of each territory and the events that punctuate it cannot be dissociated from the local social and competitive space.

This spatial layering also has a temporal dimension. Historians long ago advanced the hypothesis that there are several levels of reality. If this notion is accepted, then account has to be taken not only of long-term trends but also of the structuring nature of events. Consequently, all time frames whether short, medium or long, are given equal importance. For historians, it no longer taboo to suppose that all these time frames might come into play simultaneously, so that a phenomenon might be explained by the conjunction of several different time frames. The distant and recent past, the present and the future all contribute to its elucidation. For them, time is itself 'layered'. This is why we wanted to take into account 'these regimes of historicity' in order to reveal the 'plurality of social temporalities' (Braudel, 1958).

## **B- TWO TERRITORIES IN THE LIGHT OF THEIR HISTORY**

### **RESEARCH METHODOLOGY**

This paper examines the changes in two old industrial areas in the PACA (Provence, Alpes, Côte d'Azur) region: 1/ change in the fragrance and perfume industry centred on Grasse in the Alpes Maritimes ; 2/ the restructurings following the closure of the shipyard in La Ciotat that led to the construction of the Athélia / Gémenos / Aubagne enterprise zones. The data were gathered by means of observations and individual meetings (118 in the two areas) and group interviews, as well as from primary and secondary statistical and documentary sources. The decision to focus our comparison here on the productive systems in Grasse and La Ciotat can be explained by our desire to compare productive systems that differ from each other but face similar problems in some respects.

Right at the outset of the research, we were able to identify two categories of change. The first of these can be described as radical changes, in which the development of the productive system is characterized by a more or less complete break with the past, such that the emerging activities did not necessarily have any link at all

with the industries they were replacing. The changes that followed the closure of the shipyard at La Ciotat fall into this category (as does the Provence mining area). We also identified a process of change, which we describe as continuous or adaptive, in which old activities remain but change, while new activities connected with the previous ones emerge. It is this kind of change that has taken place in the Grasse fragrance and perfumery industry (as well as in the agro-food industries in the Lower Rhone Valley). Despite these differences, there are also some interesting similarities between Grasse and La Ciotat. To a greater extent even than the other two areas, these two territories were organized around the 'company town' principle, with the productive system and workers' houses concentrated in the same place. This of course is not without its influence on social, political and inter-organizational dynamics. Furthermore, the industrial activities in these territories have for a long time faced competition from tourism; the confrontation between the two activities is becoming increasingly intense and is a source of conflict at the local level.

#### **GRASSE AND LA CIOTAT : TWO CONTRASTING FORMS OF TRANSITION**

For almost two centuries, La Ciotat was a town dominated by a single industry, namely shipbuilding. La Ciotat was a technological town whose economic activity was based on a particular skill model, that of the skilled metalworker, and on a model of an occupational community united by a 'workplace convention' that revolved around the manufactured object and the legitimacy of pride in the finished product.

In 1986, the French government decided to cease paying the massive subsidies it had until then been channelling to the five major French shipyards. This led to the Normed Group, owner of three of the yards, filing a petition for bankruptcy and subsequently to the sudden closure of the major yard at La Ciotat, close to Marseille. The trauma this created within the local population was to give rise to a dispute that lasted ten years and raised a whole host of issues. In the course of the dispute, it became evident that there were two basic views about the future of the site. The first, which was advocated by the more militant faction among the shipyard's former workers, was that every effort should be made to resume large-scale shipbuilding activities on a scale comparable to those of the past. The second, which was supported by one of the mayors of the time, was that the site should be turned into a slice of real estate by building a marina on it.

When the shipyard was closed, two types of public policy were put in place :

- a social welfare policy, intended to counter the opposition created by the closure of the shipyard and 'buy' social peace;
- an economic policy, based on the establishment of a tax-free enterprise zone and supported by a European financial assistance.

The reconversion company that was set up, Provence Industrialization, was dedicated to attracting investors to the enterprise zones. It was managed by specialists in economic restructuring, territorial marketing and former shipyard employees and worked with local authorities. The enterprise zones managed by Provence Industrialization were to be a success<sup>3</sup>. They attracted flourishing firms from very different industries (no measures were taken to target firms from a particular industry) seeking to gain from the tax exemption scheme<sup>4</sup>. However, they were under no obligation to recruit former shipyard workers. At the end of 1989, fewer than 20% of the new jobs created were actually held by former shipyard employees.

One event that remained largely outside the scope of these policies was to play a part in determining the site's future. In 1994, the French Central government and the major regional authorities create a semi-public investment company (SEMIDEP)<sup>5</sup>. As the former shipyard employees wished, the SEMIDEP was to focus on reviving the site as a location for heavy industry and by attracting large industrial companies that might restore life to the shipyard. However, it was in fact small industrial companies that set up on the site : 'sailors turned managing directors' (Garnier and Mercier, 2003).

In the mid-1990s, a famous former skipper from Switzerland initiated the 'Grand Mistral' project. The aim was to make use of some of the specialist equipment at the site in La Ciotat (docks, quays, cranes and gantries) to build twelve large sailing ships that would take part in a round-the-world race. This project quickly attracted famous skippers, naval architects and builders and repairers of pleasure craft from all across Europe, who got involved in the project either by joining the team that was managing it or by setting up their own businesses. After two years the project failed. In the meantime, however, eight boats had been built. Small businesses had been set up and others already operating in the same industry had been attracted. Things began to move: there was a change of direction in the site's trajectory and industrial activities associated with yachting

took firm root on the former shipyard site. At the end of the 90s, two main industrial areas can be distinguished: the DIAM site dedicated to yachting located in the former harbour of La Ciotat, and, outside of the city, the Athélia, Gémenos and Aubagne areas with no sector-based specialization.

The changes in the Grasse fragrance and perfume industry were much less visible, because the industry continues to dominate the area.

The Grasse perfume industry has a long history, since the first distilleries were established in the region in the 16<sup>th</sup> century. It was in the 19<sup>th</sup> century that the Grasse perfume industry acquire the distinctive features that were to characterize it until the middle of the next century :

- an economic and social system centred on family businesses;
- a mode of industrial organization based on upstream activities.

Grasse companies produced natural raw materials (significant flower growing industry) that served as a basis for producing fragrance compounds;

- the existence of a real local production system, with the industry providing work for a whole host of trades vital to its operations:



farmers, glass-makers, tinsmiths, cork makers, boilermakers, printers, etc;

- its firm roots in local society. For a long time, the industry employed a significant share of the town's population.

In the course of the 20th century, and particularly from the 1950s onwards, the Grasse fragrance and perfume industry was to undergo significant changes that were to lead to its partial marginalization within the global industry and give it its current configuration<sup>6</sup>. The Grasse region had been the matrix within which the industry had developed, both physically and socially. Today, the productive system still maintains links with the territory but they are now looser and to some extent intangible.

Flower growing, which was the very foundation of the region's expertise, was gradually relocated by the industrialists of Grasse themselves, in the search for production sites that were competitive in terms of labour costs. This relocation was followed by the diffusion of the expertise that had originally been held exclusively by the Grasse companies. More seriously, Grasse lost its monopoly on the construction of a scarce resource, namely the master perfumer's expertise. The industry long had a policy of skill constructing through the oral transmission of knowledge and expertise from person to

person. Perfumers themselves began at the bottom of the ladder as apprentice learning about fragrances in the process. Perfumers are now trained at ISPICA<sup>7</sup>, a college in the Paris region. This shift marks a decline in the specificity of a scarce resource that was traditionally associated with Grasse.

At the same time, the local industry has undergone significant restructuring. This process began in the 1950s with amalgamations of local companies and the arrival of outside investors. These acquisitions were to give rise in the 1980s to a significant trend towards the establishment of small firms by managers of these companies, either because they had been made redundant or because they did not like the direction the companies were taking under their new owners. In particular, Sanofi<sup>8</sup>'s restructuring of its perfumery operations was a pivotal moment in the area's development. Nevertheless, the restructuring can also be described as 'creative destruction'. Events that could have led to the break-up of the area in fact led to its regeneration<sup>9</sup>.

The economic organization is now based on small firms (half of the firms now have fewer than 50 employees) engaged in operations further downstream (production of fragrance compounds and trade).

This shift has weakened the territory, since these new activities are less likely to provide a significant competitive advantage than extraction activities (imitation is easier). It creates less complementarity, more direct competition and perhaps less innovation (Maskell and Lorenzen, 2004). Today, the industry is subject to the hardening of economic constraints : acceleration of product life cycle and wider diffusion of products, concentration of the industry, emergence of new success key factors in the industry (volume, price and marketing), extension of standardization and certification systems, increased regulatory pressures and spread of environmental concerns. As a result, companies in Grasse have to make certain specific strategic choices in order to survive.

## **COMPARISON AND DISCUSSION**

In the light of these narratives, how are we to interpret the impact of history on the conditions for the construction of non-transferable territorial resources?

**The ladder of innovation in the productive systems of Grasse and La Ciotat : the difficulty of constructing resources collectively**

The 'ladder of innovation' can be analysed on the basis of several interdependent rungs : the strategic positioning of local firms, which may collectively produce a territorial strategy; firms' behaviour to the construction of non-transferable territorial resources; and the nature of the interactions between economic actors (cooperation versus competition).

What is the basis for these territories' competitiveness today? In both cases, firms' strategic positioning reflects a tension between two opposing strategies : 1. the production of large volumes of standard products for sale in a price-regulated market 2. the sale of products that are clearly specified, within the context of ongoing relations with particular customers, in terms of deadlines, volumes, quality and use. The particular approach favoured by firms affects their relationship with the territory, making it stronger or weaker depending on the strategy adopted.

In La Ciotat, the strategic choices varied depending on the enterprise zone in question. Most of the firms that set up on the DIAM site at the former shipyard provide maintenance, repair and refit services for superyachts. The local businesses are drawing on recognized

expertise and have positioned themselves in very high value-added segments of the market (yachts, racing craft). In each of the highly specific sets of services they provide, they maintain bilateral relations with their clients involving a high level of cooperation. On the other hand, in the Athélia, Gémenos and Aubagne development areas, economic activities are so heterogeneous that no dominant trend can be discerned. Nevertheless, firms operating in the electronics or medical imaging sectors are developing strategies on both innovation and the exploitation of specific competences.

The SMEs in Grasse have favoured strategies designed to protect them from price competition : 1. by positioning themselves in product markets that require a level of reactivity that can be achieved only through inter-firm cooperation at local level; 2) by seeking out particular commercial or technological niches (some firms deliberately look for markets that have the reputation of being difficult to access, such as Iran or Burma, or try to exploit the local specific expertise in the processing of natural raw materials), 3. by associating their product image with a place – Grasse – that continues to represent a globally recognized label. These strategies lead them to maintain or even strengthen their ties with the local territory. On the other hand, the strategies adopted by the

subsidiaries of multinationals seem to have more in common with the dominant approaches in the industry, with their emphasis on volume and marketing. The Grasse location is used by these groups as part of their public relations strategies. They invite some of their clients to stay in the town; Grasse, continues to benefit from its image as the birthplace of perfumery.

This strategic positioning around high value-added products or activities should be reflected in attitudes to corporate resources. Thus a strategy geared to differentiated products should logically rely on specific resources that are not easily transferable. Investigation reveals contrasting and evolving situations in the various areas that reflect the particular characteristics of each territory, which are the product of its individual history and the irreversibilities it produces.

The nature of the territorial resources necessary for the economic activities in question has changed bringing about the evolution of the core competences of the territory. Why did these territories develop in the way that they did? Because a natural resource was being exploited, one that tied firms to the area (flower growing in Grasse, a wide, deep-water bay in the case of La Ciotat). In both Grasse and La Ciotat, the territory, as a physical entity, was the matrix for the

industrial and social space. Occupational competences in the spheres of shipbuilding and fragrance and perfume production developed in these spaces. In Grasse, this space no longer enjoys the support it used to derive from the physical rootedness of its resources. In La Ciotat, this rootedness is no longer sufficient to guarantee the competitiveness of its industrial operations. The sources of competitiveness are increasingly firms' capacity for innovation, which in Grasse is based on the perfumers' expertise and in La Ciotat on activities associated with yachting, i.e. on the expertise of the 'sailors turned managing directors'. These areas' economic competitiveness is now dependent on the ability of the public and private actors to consolidate these resources when they exist, to create them or to attract them to the area. For the territories, the core competences are no longer the sum of the core competences of the firms located in them. Clearly, it is the existence of forms of organized proximity, that is the ability to construct bundles of inter-organizational relations within the territory, that will enable it to continue. The relevant resources are being *constructed*, both within the education and research system and in and *between* firms, i.e. collectively.

Firms in Grasse have been only tangentially involved in the collective construction of resources. Most of these resources – the human and technological ones in particular – are constructed outside Grasse, in France or abroad, and those that are reproduced and created locally emerge within individual firms. The perfumers themselves, the industry's emblematic professionals, are trained at the ISIPCA, which is located outside the territory. The industry's technological resources, which are a critical issue today, function according to the same principle. The largest companies in the area have their own R&D systems. The smaller ones do not have the resources to fund R&D activities. However, all firms in the Grasse industry have at their disposal collective resources that they share almost unintentionally; these include a skilled labour supply, already socialized into the industry's culture, an 'industrial atmosphere' that encourages the transmission of knowledge through informal exchanges between individuals or inter-firm mobility and the repercussions of Grasse's reputation as a centre of excellence in the world of perfumery. However, while subsidiaries of multinationals tend rather to be consumers in this regard (which has led to closures and relocations), SMEs in Grasse are now showing the first signs of getting involved in the collective construction of resources, with the impetus coming from some of the public actors in the area who are concerned to



maintain an industry that enjoys considerable prestige and employs significant numbers of local people<sup>10</sup>.

In La Ciotat as well, firms' strategic positioning is reflected in the strategies they adopt with regard to the construction of resources. Firms on the DIAM site started out as consumers of the former shipyard's resources, as adapted by SEMIDEP. Gradually, however, they have become involved in the construction of resources through the mediation of their association, also a recent phenomenon. This has strengthened their ties with the local territory. However, this process of construction is focused essentially on infrastructure and equipment (such as the installation of a boat lift, which is a very costly piece of equipment, to be shared by the various firms). On the other hand, the territory is still unable to provide suitable training for this industrial fabric. The competences required for shipbuilding come from outside the region, or even from abroad. In the Athélia, Gémenos and Aubagne enterprise zones, on the other hand, some firms, or the associations representing them, have taken an active part in the promotion of certain developments, but the overall trend is for them to be primarily consumers of resources. The heterogeneity of the industrial fabric and of the needs expressed by firms is

certainly one of the reasons for this. However, another reason lies in the fact that, within these tax-exempt areas, entrepreneurs from outside attracted by the tax exemptions are operating alongside former shipyard workers who have come to set up their own businesses.

Thus the capacity to create specific resources is linked to the ability of private and public actors to coordinate and cooperate with each other and pool resources. Now if too high a level of heterogeneity among the actors can be an obstacle to cooperation because of the absence of a common reference framework (which is undoubtedly the case in La Ciotat, where resentments of various kinds have further muddied waters already clouded by different perceptions of the situation), excessive homogeneity may also prevent cooperation because firms see themselves as competing directly for resources. This is undoubtedly what has happened in Grasse, where the process of constructing human, commercial and technical resources takes place on an individual basis within each firm rather than collectively.

### **Increasingly structuring forms of governance**

The changes that have occurred in the two territories have been accompanied by changes in the forms of territorial governance. Within the space of a few years, there has been a shift from a very contrasting situation to one characterized by a general trend towards convergence.

Until the 1980s, Grasse and La Ciotat could be clearly distinguished from each other by the nature of the actors operating within them and hence by the dominant type of local governance.

In La Ciotat, an economic restructuring zone, the arrangements put in place by the public authorities were centralized and cumbersome. The dominant part played by the state can be explained by its major role in the local productive system and by the fact that a serious social crisis had to be checked. The state had a strategic role as the guarantor of national independence in the shipbuilding sector, acting as an entrepreneur in its capacity as the supervisory authority for the shipyards and as the regulator of industrial relations. The state invested considerable resources in dealing with the crisis, particularly since it had played a part in triggering it by closing the shipyard. The transitions were based on aid, development and promotion measures put in place by groups of public actors, who in many cases were unfamiliar with the organizing principles underpinning the local

economy. There were essentially two institutions responsible for the entire process. One was the semi-public investment company Semidep, set up to manage the development of the former shipyard site. The other was Provence Industrialization, a limited company set up on the initiative of the state in order to attract investors into the new enterprise zones.

In Grasse, where the transition was characterized more by continuity, the principal actors have always operated essentially on a local level and in accordance with the organizing principles of their particular industry. Prodarom (Syndicat National des Fabricants de Produits Aromatiques, or the National Association of Fragrance Manufacturers) has long played a significant role both in representing the interests of manufacturers at the national and international level and, at local level, in informing manufacturers about changes in the industry and in the regulatory framework. However, the Grasse productive system has never been wholly ignored by the major public actors. It has always had to adapt to national and European, health, safety and environmental regulations. However, it has never seen intervention on the same scale as at La Ciotat. The longer established companies have always been unwilling to get involved in state interventions, largely because of their confidence in their

dominant positions. Thus companies in the Grasse industrial fabric (and their managers), which are indissociable from the professional and relational networks that they have constructed, have been at the centre of an autonomous, collective mode of regulation characterized by its ability not only to generate highly specific resources and considerable cultural and social coherence but also to adapt to shocks and economic circumstances.

Today the modes and objectives of territorial governance are increasingly similar in the two areas. The task in both territories is to defend or reposition the local productive system within the global competitive environment in order to ensure that the territories obtain decisive competitive advantages for their firms so that they do not relocate and other companies are attracted. Thus although the two territories have followed very different development trajectories, there is increasing hybridization of the principles governing the actors' behaviour. A few years ago, there was a clear distinction to be made between the public mode of governance in those territories where the transition process had brought a break with the past and the private mode of governance in those that had retained some degree of continuity. Today, however, the organizing principles in both territories are converging. This trend is reflected in both the

decentralization of public interventions and the development of forms of cooperation hitherto regarded as improbable between private actors (companies and their representatives) and public actors (at commune, municipality, department or region level). Thus the earlier polarization between public and private actors has evolved towards a cooperative relationship that is still emerging and which, if it is to stabilize, requires lengthy learning processes. The development of such a relationship has been made possible by the arrival or return to centre stage of certain actors.

The first of these are the new or re-legitimated institutional actors: on the one hand, territorial bodies such as the Regional Council, General Council and the *communes* (smallest territorial division), whose competences have been extended since the legislation on decentralization and, on the other, the Chambers of Commerce and Industry and other professional bodies. In Grasse, the change in the municipal boundaries a few years ago and the development of the Organization for Intercommunal Cooperation (*Communauté d'Agglomérations*), the members of which are several *communes* in the Grasse area in which firms in the fragrance industry are located, have helped to reactivate the role of the institutional actors by establishing discussion partners for companies and their

representatives in the realization of a joint project: making Grasse THE 'world centre for natural products'. However, not all the local actors, whether public or private, are involved in these projects. And it is here that history brings its weight to bear.

The second group is made up of private actors who have consolidated or increased their legitimacy. They include new company managers with some degree of autonomy at local level, new directors of small firms that have emerged out of spin-offs or restructurings in the fragrance and perfume industry, for example, and local managers of transnational companies. Since the mid-1980s, a new category of corporate managers has emerged that is playing an active role in the construction of local resources. They played a prominent role in the recent forging of links between perfume companies and regional public actors and in the promotional campaigns conducted by the associations of company directors at the Athélia and Diam sites in La Ciotat. In Grasse, the directors of the SMEs that were set up in the 1980s are members of a very active entrepreneurs' club and are heavily involved in projects that aim to increase the territory's attractiveness. Just a few years ago, these same company directors had little legitimacy compared with the managers of the surviving large family companies or the representatives of the multinationals with a local presence. However,

some of the managers of establishments or subsidiaries owned by larger groups have also been able to play an active part in the construction of resources. They are now committed to the local area emotionally, professionally or simply as citizens and, for the other local actors, they have become potential partners in innovative projects.

This development is undoubtedly linked to the questioning of traditional forms of rootedness in a territory's productive systems and the need the various actors perceive to reconstitute specific territorial resources that are not transferable.

### **History : energizing force or dead hand?**

Thus these two territories have now reached a point in their development where they are faced with a pressing need to produce the resources and competences that will guarantee their survival. However, this need is not perceived in the same way by all concerned. A brief survey of the history of these two areas will help us understand why.



### **Founding events that set down physical, organizational, cognitive and social imprints on the territories**

The economic structure of the current territories and the relations that firms are developing or not developing today with each other or with local institutional actors bear the positive or negative imprint of various historical strata.

Grasse, for example, is now a productive system made up largely of SMEs positioned mainly in downstream activities; most of them do not have the resources to carry out R&D. This structure reflects the persistent influence (more than 20 years afterwards) of the restructuring policies implemented by external investors. The failure of the acquisitions and the resale of some companies – by Sanofi in particular – was a very hard period for the area (factory closures and job losses) but also a time when firms were set up that revitalized the territory's industrial fabric. Events that could have led to its break-up in fact led to its regeneration. Nevertheless, this regeneration has also weakened the industrial fabric. These firms are small but operate in an industry dominated by multinationals that set the conditions for success, which requires significant R&D and marketing resources. Furthermore, the shift towards downstream activities

means that local firms are competing with each other much more in their markets. This of course considerably reduces their willingness to pool resources. However, this spirit of competition is also a product of the area's history and indeed of a specific characteristic of the industry, namely the difficulty of protecting its products. A fragrance cannot be patented, since that would be tantamount to supplying its formula to the competition. This gives rise, particularly in Grasse, to a culture of secrecy within the industry that still today prevents firms from cooperating with each other.

In La Ciotat, the local productive system is now divided between the enterprise zones, on the one hand, with their largely heterogeneous industrial fabric, and the DIAM site on the former shipyard, which specializes in superyachts. This fragmented, compartmentalized structure has its roots in three series of events or actions: the closure of the shipyard, which was obviously the triggering event, as well as the choices made in response to the crisis and the abortive Grand Mistral venture. The 'trauma' of the closure led to the loss of heavy industry (which was more than ten years in the dying), grievous blows to individuals and divergent visions of the territory's future economic trajectory. Second, the economic policy adopted in the wake of the shipyard's closure also contributed to the change of

trajectory in the local productive system and is still affecting its competitiveness today. In focusing primarily on tax incentives, the local actors gave up the idea of rebuilding a coherent productive system based around a single dominant activity. The positive effect of this decision was the establishment of sound businesses; the downside, however, is that the now extended territory includes, in its tax-exempt zones, firms that have little in the way of proximities, whether organizational or institutional. Third, the revival of industrial activity linked to the sea has its roots in the stubbornness of the most militant of the former shipyard workers but above all by the 'Grand Mistral' episode, which established the breeding ground from which most of the firms on the DIAM site emerged.

### **The layering of the strategic visions in the territories**

One common difficulty that both these territories, with their very different histories, have to overcome is that the shocks they have endured have not been experienced and interpreted in the same way by the various actors. The same situation has been (and still is being) interpreted in different ways. Events have imprinted themselves firmly in individuals' minds, influencing inter-organizational relations and hampering or preventing collaborative ventures. The economic

history of these two productive systems has produced 'winners' and 'losers'.

In Grasse, the construction of resources for R&D is crucial for SMEs that do not themselves have the necessary equipment. On the other hand, the large family firms that have survived the restructuring have developed their own resources, while the subsidiaries of foreign groups are able to rely on their parent companies' infrastructures. The renewal of the territory's core competences has to go beyond these divergences of interests. As for the local political actors, who were occupied for several decades by the establishment and development of the neighbouring productive system at Sophia Antipolis<sup>11</sup>, it is only recently that they have begun to seek to play a role in the development of local resources that would make the territory more attractive to businesses. The restructurings of the 1980s still weigh heavily on inter-firm relations. Some of the managers who set up their own companies at that time are still bitter about that period, and the professional association of the perfume industry (Prodarom), which has its headquarters in Grasse, crystallizes part of that resentment, which hardly encourages cooperation. Prodaron members are drawn largely from large national firms or subsidiaries of multinationals, with low levels of

membership among SMEs. Several of the managers we interviewed expressed the view that it represents only the interests of the largest companies. Furthermore, some of the managers directly involved in the restructuring process on behalf of the parent companies are still in the area and actively involved in Prodaron. This provides a further, and somewhat different explanation for the difficulties currently being experienced in bringing together groups that potentially have much in common.

In La Ciotat, the breakup of the industrial fabric reflects its institutional breakup. The heterogeneous enterprise zones were set up outside the town, or even the *commune*, and at some distance from the old shipyards. These choices of location reflect the need to find sites that could accommodate a large number of businesses. They also reflect a desire to be at some distance from the dispute in order to make it easier to attract investors. The managing directors at Athélia and Gémenos know whether or not they have benefited from the tax exemptions available to companies in the enterprise zones, but many of them have forgotten the circumstances with which these exemptions are associated. The zones were created from scratch and firms simply set up alongside each other. Most employees were recruited from outside the local area. The firms in these zones have

not to date become part of a collective project. Inter-firm cooperation remains very limited. Conversely, the DIAM site and its companies are the heirs – more or less despite themselves – to the old shipyard. Firstly, they cannot ignore the physical history of shipbuilding, since they use the yard's infrastructure on a daily basis. Secondly, their business is still linked to the sea, even though the activities associated with yachting have little in common with those of shipbuilding. Nevertheless, the heritage stops there; although the site is located in the very heart of the town, the new businesses do not employ the former shipyard workers. However, the 17 SMEs located on the site, which employ a total of 250 people, have given rise to a territorial dynamic driven by a set of organizing principles that complement each other and converge around a shared vision of the territory.

However, even though history has left a deep imprint on these territories, this is not to say that they are incapable of renewing the forms of inter-organizational cooperation. There are actors that have plans – a vision even – for their territory, some of whom are determined to go beyond the divisions and obstacles inherited from the past. The example of Grasse is significant. A good illustration of this duality is the readiness of firms in Grasse to support the efforts to

establish a regional competitive cluster 'Perfumes, Flavours, Savours, Scents' as a means of boosting competitiveness. The leaders in the project are perfume manufacturers previously reticent about local cooperation. Involvement in the project reflects their desire to surmount past disputes and competition but also contributes to their local legitimacy and increases their power. As for La Ciotat, the disputes between industrialists and property developers as to the use of the former shipyard site have not yet been clearly resolved. The plan of the main public actors is to ensure that the business activities associated with yachting are linked in future with tourist activities. This could create broader links between the productive and urban spaces. However, this plan is something of a gamble, since it could lead to a shift in the development dynamic towards property development and tourism and away from manufacturing.

## **Conclusion**

In an interview, one company director listed the reasons why he was considering moving production to another part of the world. The main ones seemed to be linked to the cost of labour; at the same time, however, he added that he wanted to keep a plant in the region in

order to maintain a 'local unit' that would continue to supply the local market and to develop links with suppliers who would meet the needs of this local unit over the long term, despite the fact that it would ultimately be doing nothing more than finishing off the work and distributing the product. Territories are now stacking up on top of each other like a mille-feuille pastry as a result of the shrinking of distances through the incessant development of logistics and transport. The territories under investigation here are currently experiencing this same trend towards competition on the basis of the characteristics they offer in terms of labour or in technical terms. And yet the areas we have studied are not positioned in the same way on this ladder. There are differences in the ways they mobilize local or international resources, appropriate rules and the changes to them and root themselves in a territory while at the same time being part of a much larger network. The reasons for these differences and distinctions are linked to the ways history has shaped each territory, to the ways in which the actors have interacted within the space and to the differences in their appropriation of technologies and resources.

Comparison between Grasse and La Ciotat shows that these two territories do not enjoy the same advantages. The Grasse productive



system can be defined as a territory, that is a spatialized organization in which the actors are united around a collective venture. What seems to be problematic today is getting diverse interests to converge around a shared vision. In the case of La Ciotat, on the other hand, it might be wondered whether the territory actually exists at all. Geographical fragmentation, a heterogeneous economy and the diverse ways in which the shipyard crisis was interpreted and experienced are still obstacles to the emergence of the territory itself.

Nevertheless, a common lesson can be drawn from these two experiences. In both territories, the industrial fabric, the social fabric and the physical space were originally closely linked. In recent times, as constraints have hardened, this system of interdependencies has lost its coherence. In both territories, certain actors (both public and private) have understood that the nature of the inter-organizational relations that are of value to the territories is changing, since they are attempting to activate or reactivate certain forms of cooperation in such a way as to reconstruct some degree of specificity. The justification for the existence of these territories no longer lies in the natural resources that led to their emergence. In the past, these territories were able to exist by virtue of what they were. Henceforth, they will have to survive by virtue of what they do. Territories can no

longer be taken for granted. More than ever, they have to be constructed.

In this article we tried to highlight the conditions under which territorial core competences can renew. The RBV approach allows the identification of these competences. Comparison between Grasse and La Ciotat shows that their renewal involves the setting up of forms of territorial governance that are able to favour the development of inter-organizational and inter-institutional cooperation. In old industrial regions, this ability is necessarily influenced by the permanence of industrial, social and political heritages. More than an organization (a Hierarchy), a territory can be defined as a space of potential or effective conflicts. The RBV approach minimizes these political aspects (in Cyert and March sense). A territory inevitably develops with lots of tensions and compromises. Heritage is embodied in many structures, social positions or actors' representations. The historical analysis allows to highlight the context under which these representations or positions emerge. History must not be pushed into the background, it is an essential dimension of the analytical framework. In the literature, path dependency means that the order in which things happen affects the way they happen (Davies, 2004, citing Hay and Wincott, 1998). It can

also mean path shaping because social forces intervene and compete around dislocating events (Torfing, 2001). Our comparative work allowed us to describe and characterize these social forces. Path dependency phenomenon shapes territorial trajectories through two logics of sedimentation and fragmentation. As a wheel does on the ground, past puts down a diversity of imprints at different periods. But at the same time, there are different readings of these successive layers. The combination of these logics defines path dependency influence.

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<sup>1</sup> The research focused on agro-food activities in the Lower Rhone Valley, the Provence mining area, the fragrance and perfume industry centred on Grasse and the shipbuilding yards of La Ciotat. The analysis in this article will be confined to the Grasse fragrance and perfume industry and the reconversion of the shipyards in La Ciotat.

<sup>3</sup> After 5 years, for all the enterprise zones in the departments of Bouches du Rhône (Athélie-Gémenos-Aubagne) and Var (Signes), 1560 plans had been submitted, 157 (re)location projects had been completed (122 involving industrial SMEs and 35 large manufacturing groups) and 7,100 jobs had been created.

<sup>4</sup> From 1988 to 1991, the various elements used as a basis for calculating business tax went up by 23% in the Bouches du Rhône as a whole, 37% in La Ciotat, 53% in Aubagne and 234% in Gémenos / 'Gemplus' effect.

<sup>5</sup> Founded in 1994, SEMIDEP (Société d'Economie Mixte de Développement Economique et Portuaire) was supported in particular by the regional council, the general council (roughly the equivalent of the county council in Britain), the municipality of La Ciotat and the Consignments and Loans Fund and was responsible for the economic development of the former shipyards in La Ciotat.

<sup>6</sup> The Grasse fragrance and perfume industry now accounts for less than 10% of global sales in the sector.

<sup>7</sup> ISIPCA (Institut Supérieur International du Parfum; de la Cosmétique et de l'Aromatique Alimentaire) was set up in 1984 as a successor to the Institut Supérieur International du Parfum, which had been founded in 1970 by JJ Guerlain.

<sup>8</sup> Sanofi is a French Chemical Group. In the eighties, the group closed down or sold off several establishments in Grasse.

<sup>9</sup> In 1956, there were 35 firms in the Grasse fragrance and perfume industry. At the beginning of the 1970s, there were approximately 70.

<sup>10</sup> The Grasse fragrance and perfume industry is still the largest employer in the area, with a total workforce of around 3,500.

<sup>11</sup> The two productive system are less than 15 kilometres apart and in the 1980s embodied many of the rivalries between *communes* and industrialists. Grasse had a traditional image, in which industry was associated with pollution, while Sophia Antipolis was the department's shop window, a magnet for high-tech industries that enhanced the area's international reputation.